

# **EXHIBIT 47**

## **(Filed Under Seal)**

# The Changing Face of the Pork Industry

*Mark Greenwood*



# Agenda

- A Historical Review
- Where are we at today as an industry
- The Have Not's vs. the Survivors
- A look ahead for producers and capital availability
- Q&A



# Let's Look at the Past

- Prior to the 90's the swine industry was part of the diversification of their farming operation
- You had crops so you had livestock
- Some people farrowed pigs and some people bought feeder pigs
- Single site production
- From a financing standpoint, it was just part of your overall business

# The 90's Things Started to Change

- Big growth in the SE
- Many specialized systems
- Packer contracts
- Grower contracts
- More leverage was allowed due to contracts
- Very little money down
- Many “investors” owned facilities

# The 90's Continued

- Late 90's overexpansion
- \$8 hogs and not enough packing capacity
- Ledger contracts grew exponentially
- Window contracts helped the down side
- Smithfield became the largest swine producer
- Many acquisitions occurred

# 2000-2007

- The time of specialization
  - 1. Farrow to wean
  - 2. Wean to finish
- Large Midwest systems huge growth
- Many acquisitions occurred from 2000-2005
- 2004-2007 long run of profitability
- 2006 the game starting changing
- Higher demand for corn - ethanol

**It was quoted – “ I don’t want to offend anybody, but you can be fat, drunk and stupid and still make money in the swine industry the last couple of years.”**

**Mark Greenwood – Pork Profit Edge  
Boy I wish I could say that again!**

# Financing 2000-07

- Very little operating debt in 2007
- More leverage was allowed on financing of facilities
- Wean to finish – no money down or very little – if you had the site that was your down payment
- Sow units – we were seeing 10% down with pro rata guarantees

# Financing 2000-07

- Many producers had cash on hand
- Clients built facilities out of cash
- Term revolvers were created
- Items all of us saw
- Financing with very little money down
- Everyone wanted a barn
- Very few marketing agreements other than shackle space – producers were dictating terms because they could

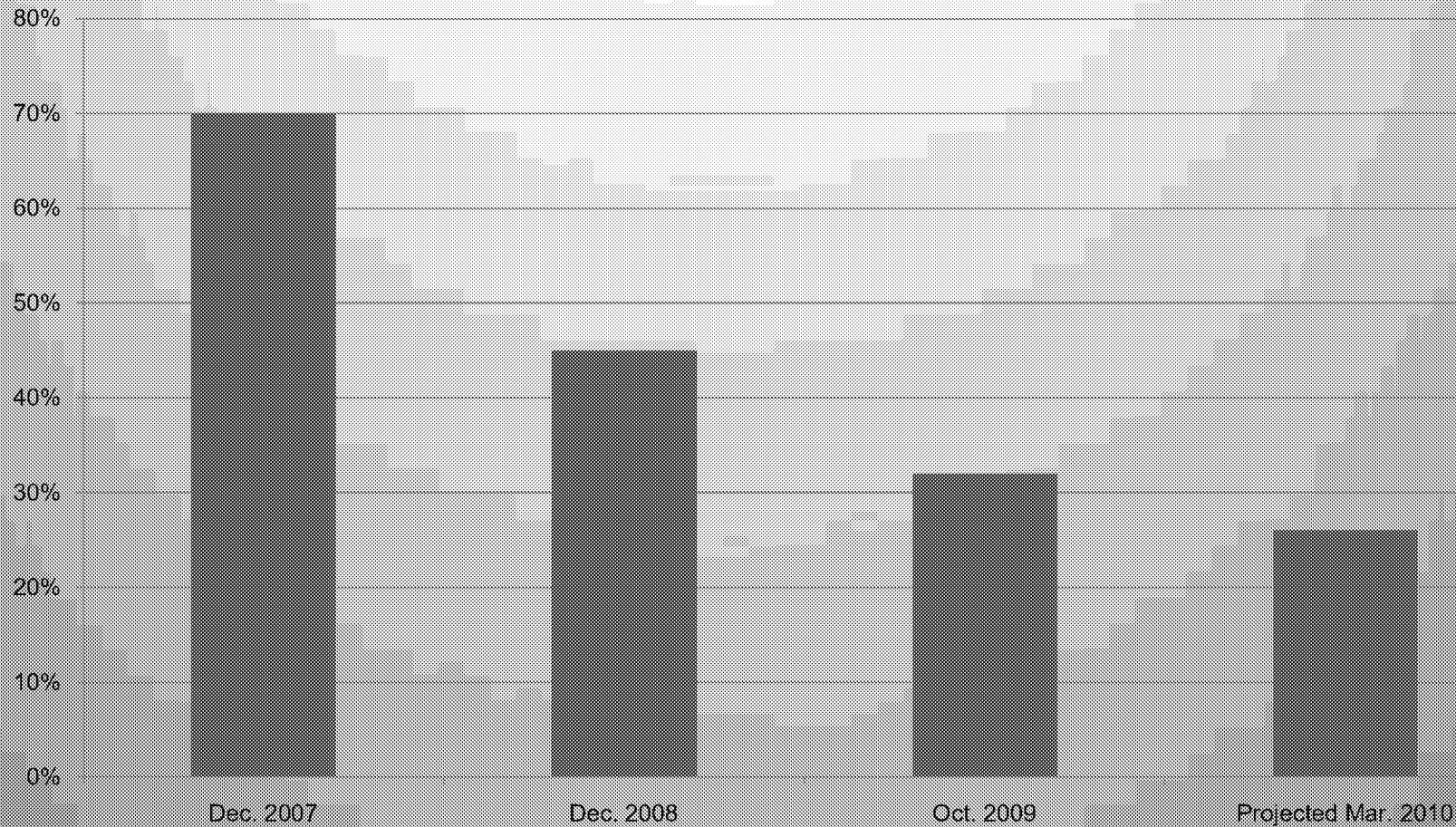
## 2008-Present

- Largest Equity erosion I have ever seen
- Largest swing in volatility I have ever seen
- 2009 – thank God it is over - 2010 has to be better (does it?)
- Producers also don't want to leave the industry – it is their way of life and will do anything to stay in.
- Many producers have put all chips on the table

# Current Swine Balance Sheets

- <35% Owners Equity
- 70% October 2007
- Working Capital ratio 1.3 to 1
- October 2007 > 3 to 1

# Owner Equity Decline



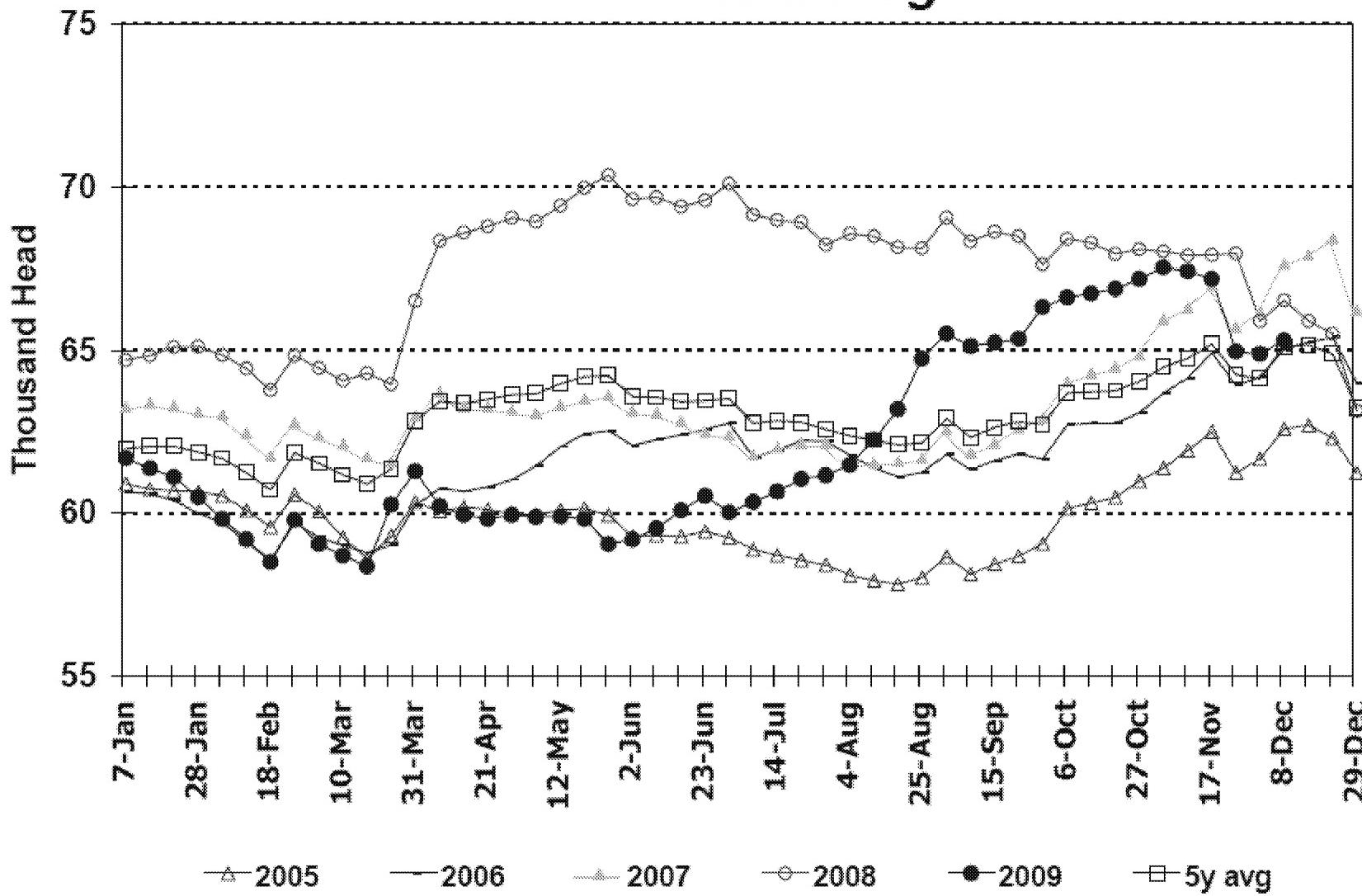
# 2009 Cost of Production

- **2009 Average Cost of Production  
\$135-\$140**
- **2009 Average Revenue Per Pig \$110-\$115**
- **Average Loss Per Head 2009  
(\$25)**
- **December will be the least loss –  
actually had some producers that will  
be in the black**

# Sow Liquidation

- **2 Large Bankruptcies (Coharie & Coastal) SE**
- **Controlled liquidation in SE**
- **Midwest is more shutdown**
- **Reduced breed targets**
- **Liquidation will still occur but it is slow process**
- **Better 2010 markets might slow it down**
- **It has not been enough and more needs to occur**
- **Everybody wants someone else to get out**
- **Very few sales of any assets to date**
- **They also think Lenders should fix the problem**

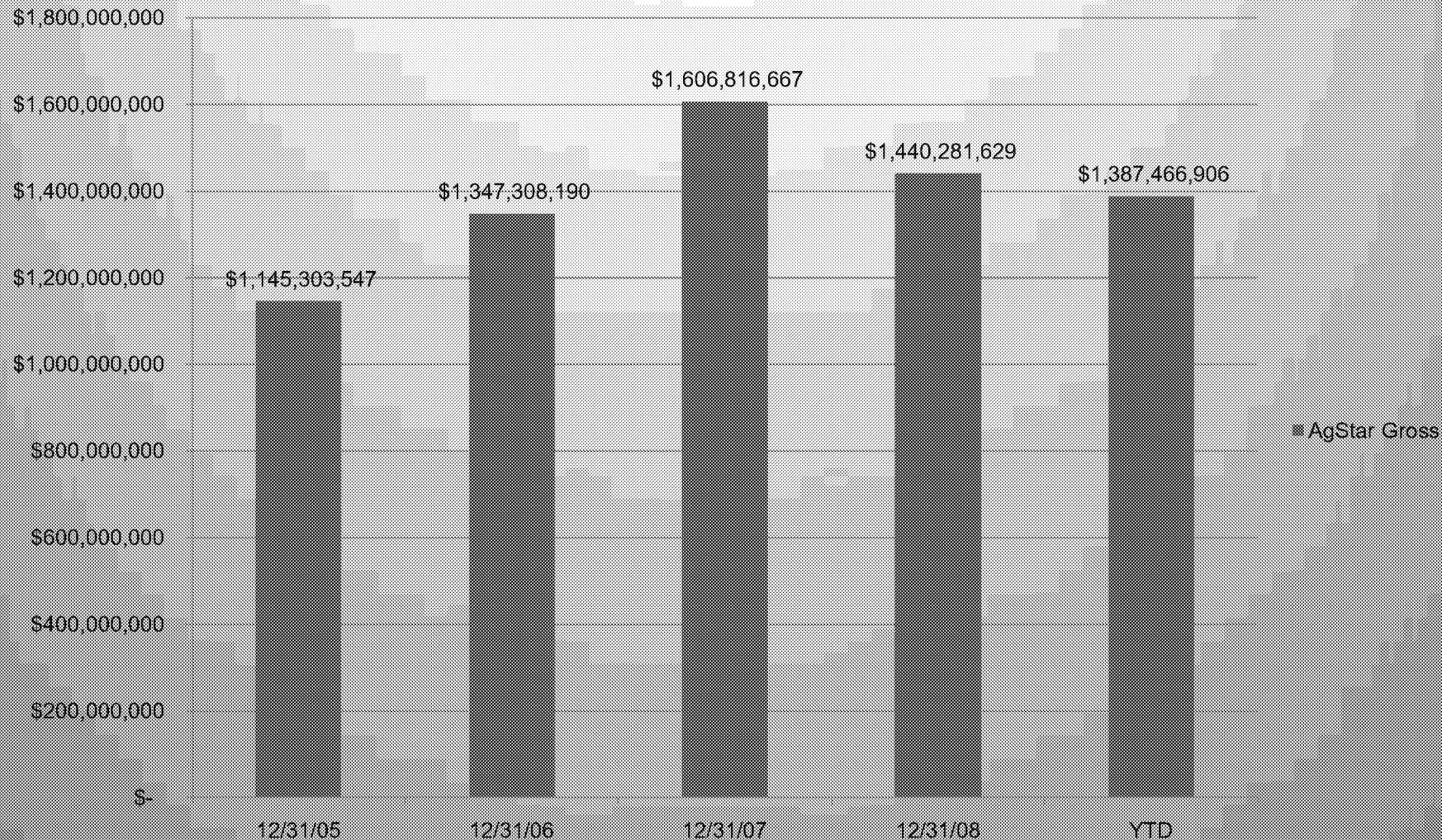
## *F I Sow Slaughter 13 Weeks Avg*



# Swine Portfolio Overview

# Swine Gross TLO

## AgStar Gross



# Swine Portfolio Overview

- .6% delinquency as of 12-31-09
- Many modifications have been done
- Many covenant changes
- Also producers have put all chips in – amazing amount of cash or equity that has been put in to keep raising pigs
- Separation from the have not's and survivors

# The Have Not's

- Not a function of size
- Function of leverage going into 08-present
- Function of risk management on feed risk and hog margin management
- Certain models struggled more than others – wean pig buyers with contracts got hit first
- Wean pig producers next
- Farrow to finish with the little risk management was next – SE was hit harder than the Midwest – cost of production is higher in SE

# The Survivors

- Still have working capital
- Current ratio > 1.4:1
- Have operating line availability
- Owner equity > 40% GAAP
- Locked in margins for 08 and 09
- Sometimes minimized losses
- Tremendous amount of resources were dedicated in this area
- Have Lenders that understand risk management
- Hedge Lines and operating lines
- Alliance with a packer – CFA or marketing agreement

# A Daily Example

Open Market Hedge Margin, 12-9-2009

Month	Cash Corn	Meal Futures	Basis	Cash Meal	Feed Cost Per bushel	Other	Cwt B/E	LH Futures	Probable Basis		Futures	Full Hedge		Per Hd	Live B/E
									WCB 3 yr Avg	Less Basis		Profit-LWT	Per Hd		
December	\$ 3.48	\$ 314	\$ (5.0)	\$ 309	\$ 63.20	\$ 60.88	\$ 59.37	<b>63.400</b>	\$ (3.75)	<b>59.65</b>	\$ 63.400	* 0.28	\$ 0.59	\$ 45.12	
January	\$ 3.59	\$ 306	\$ (5.0)	\$ 301	\$ 64.47	\$ 60.88	\$ 59.38	<b>65.075</b>	\$ (4.00)	<b>61.075</b>	\$ 65.075	* 1.10	\$ 2.30	\$ 45.58	
February	\$ 3.59	\$ 303	\$ (5.0)	\$ 298	\$ 64.30	\$ 60.88	\$ 59.89	<b>65.075</b>	\$ (1.50)	<b>63.575</b>	\$ 65.075	* 3.68	\$ 7.89	\$ 45.52	
March	\$ 3.59	\$ 303	\$ (5.0)	\$ 298	\$ 64.30	\$ 60.88	\$ 59.89	<b>69.550</b>	\$ (2.50)	<b>66.05</b>	\$ 69.550	* 6.16	\$ 12.87	\$ 45.52	
April	\$ 3.65	\$ 302	\$ (10.0)	\$ 292	\$ 64.47	\$ 60.88	\$ 59.37	<b>69.550</b>	\$ (2.25)	<b>67.3</b>	\$ 69.550	* 7.33	\$ 15.31	\$ 45.58	
May	\$ 3.70	\$ 302	\$ (10.0)	\$ 292	\$ 64.90	\$ 60.88	\$ 60.18	<b>77.650</b>	\$ (1.50)	<b>76.15</b>	\$ 77.650	* 15.97	\$ 33.38	\$ 45.74	
June	\$ 3.74	\$ 303	\$ (10.0)	\$ 293	\$ 65.38	\$ 60.88	\$ 60.42	<b>77.650</b>	\$ (1.75)	<b>75.9</b>	\$ 77.650	* 15.48	\$ 32.38	\$ 45.32	
July	\$ 3.79	\$ 303	\$ (10.0)	\$ 293	\$ 65.38	\$ 60.88	\$ 60.42	<b>76.600</b>	\$ (0.50)	<b>76.1</b>	\$ 76.600	* 15.68	\$ 32.78	\$ 45.92	
August	\$ 3.82	\$ 302	\$ (10.0)	\$ 292	\$ 65.92	\$ 60.88	\$ 60.70	<b>75.800</b>	\$ (1.00)	<b>74.8</b>	\$ 75.800	* 14.10	\$ 28.48	\$ 46.14	
September	\$ 3.87	\$ 299	\$ (10.0)	\$ 289	\$ 66.20	\$ 60.88	\$ 60.81	<b>67.375</b>	\$ -	<b>67.375</b>	\$ 67.375	* 6.57	\$ 13.73	\$ 46.21	
October	\$ 3.85	\$ 292	\$ (10.0)	\$ 282	\$ 66.58	\$ 60.88	\$ 60.56	<b>67.375</b>	\$ (1.00)	<b>66.375</b>	\$ 67.375	* 5.82	\$ 12.18	\$ 46.02	
November	\$ 3.90	\$ 292	\$ (10.0)	\$ 282	\$ 66.08	\$ 60.88	\$ 60.75	<b>66.400</b>	\$ (2.00)	<b>64.4</b>	\$ 66.400	* 3.86	\$ 7.63	\$ 46.17	
December	\$ 3.95	\$ 292	\$ (10.0)	\$ 282	\$ 66.08	\$ 60.88	\$ 60.75	<b>66.400</b>	\$ (3.75)	<b>62.650</b>	\$ 66.400	* 1.90	\$ 3.98	\$ 46.17	
January	\$ 3.96	\$ 293	\$ (10.0)	\$ 283	\$ 66.61	\$ 60.88	\$ 61.00	<b>69.000</b>	\$ (4.00)	<b>65.000</b>	\$ 69.000	* 4.00	\$ 8.38	\$ 46.36	
February	\$ 4.01	\$ 295	\$ (10.0)	\$ 285	\$ 67.16	\$ 60.88	\$ 61.26	<b>69.000</b>	\$ (1.50)	<b>67.500</b>	\$ 69.000	* 8.24	\$ 13.03	\$ 46.56	
March	\$ 4.01	\$ 295	\$ (10.0)	\$ 285	\$ 67.16	\$ 60.88	\$ 61.26	<b>72.200</b>	\$ (3.50)	<b>68.700</b>	\$ 72.200	* 7.44	\$ 15.54	\$ 46.56	
April	\$ 4.08	\$ 293	\$ (10.0)	\$ 283	\$ 67.65	\$ 60.88	\$ 61.50	<b>72.200</b>	\$ (2.25)	<b>69.950</b>	\$ 72.200	* 8.45	\$ 17.67	\$ 46.74	

# Survivors

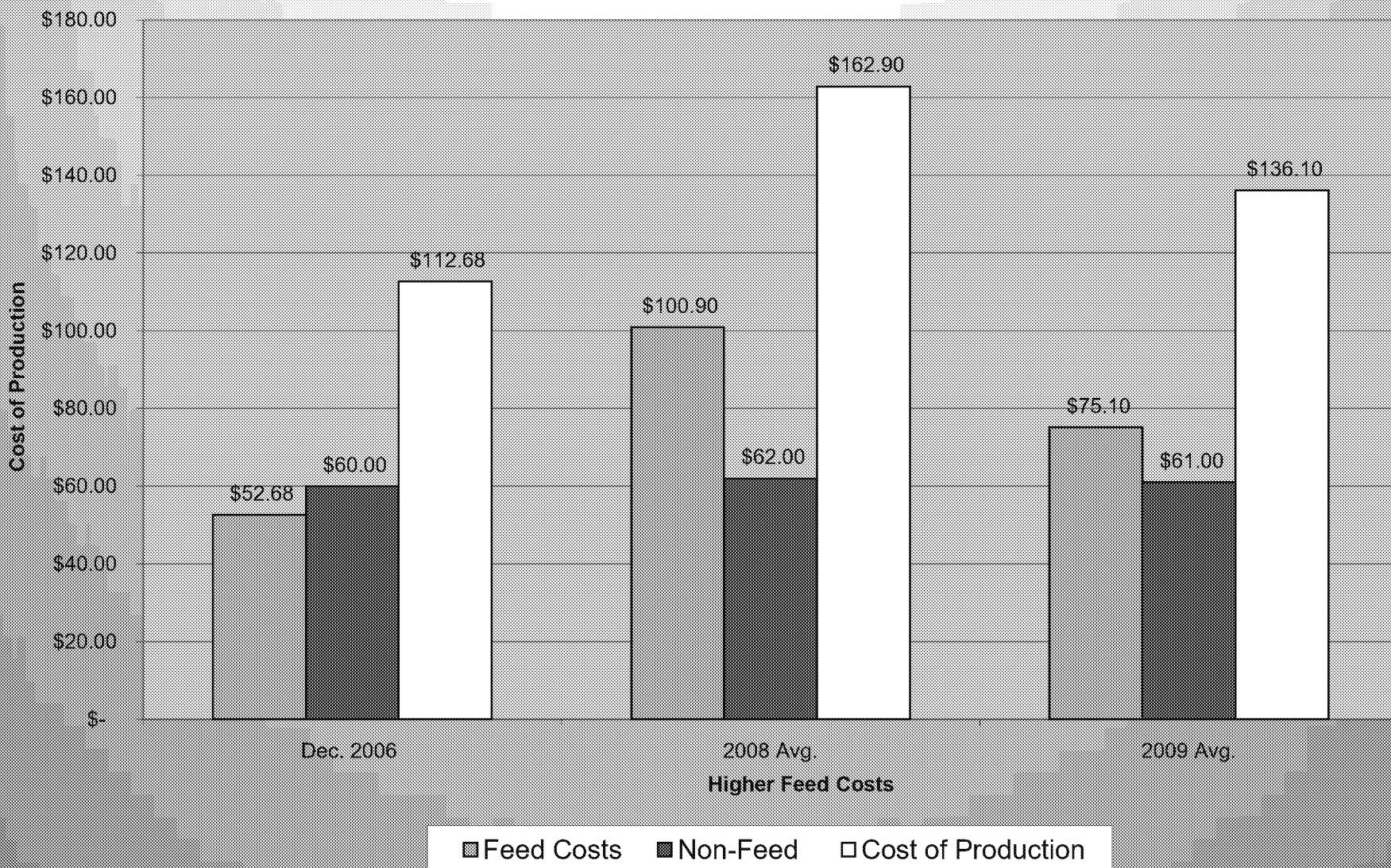
- Financial reporting is very good
- Monthly accrual statements
- Monthly cost of production – many by flow
- Monthly cost of inventory – we look at this number – today average cost of inventory wean to finish is in the low \$70's
- If you don't have this - access to capital will be very difficult

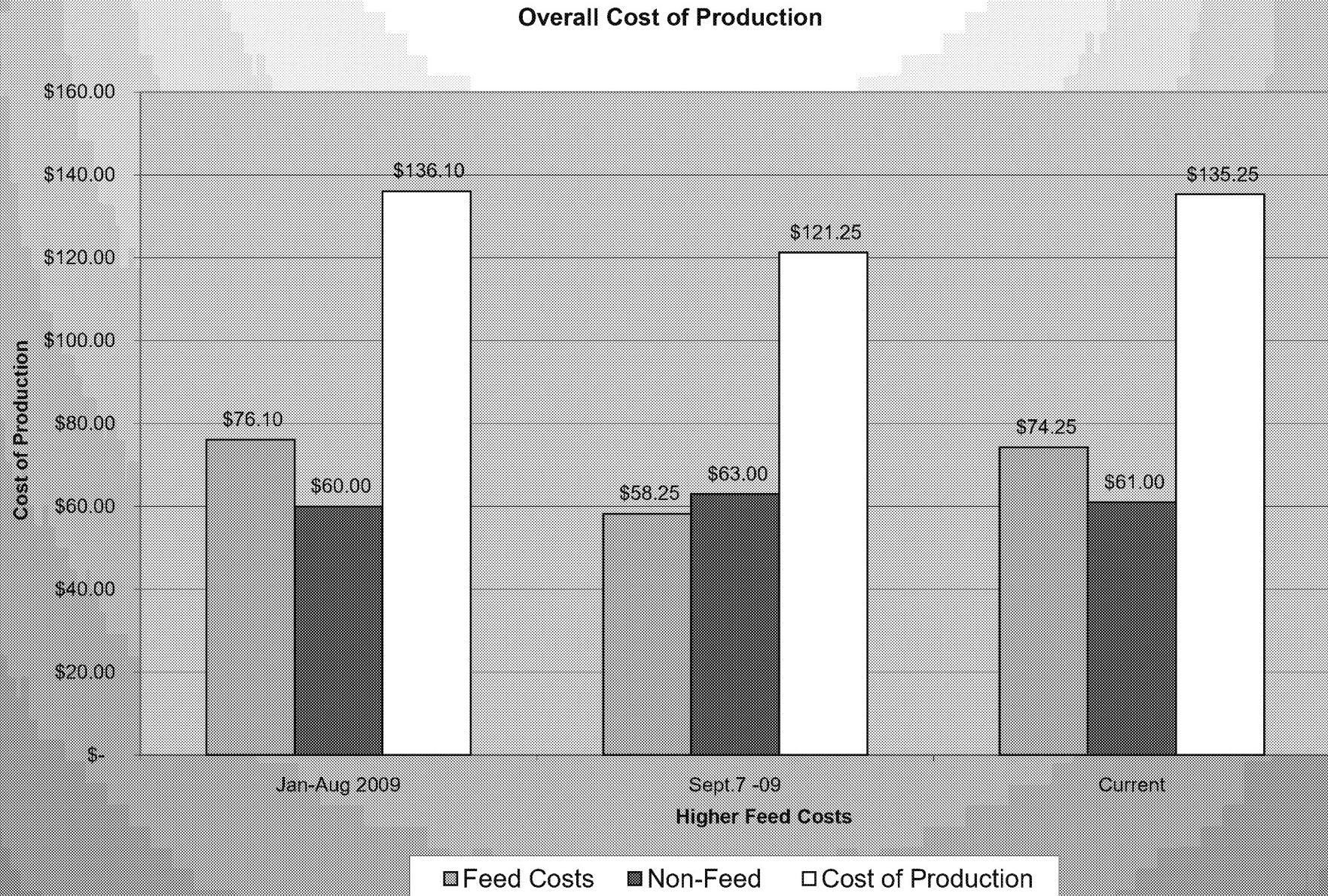
# Volatility is the Norm

- Markets have been crazy for the past 24 months
- Volatility will remain for the foreseeable future
- Risk management is crucial to survival
- More producers than you think have managed this volatility well
- Market volatility makes producers very cautious
- We are funding margin losses now through Feb.
- No margin opportunities until the April of 2010
- Can I last that long?



### Overall Cost of Production





# Packers

- SFD – more integrated less pigs going to other plants
- Some packers have CFA's but no more new ones
- Have seen CFA's but they want collateral
- Not much help coming from packers for producers yet
- Packers looking at owning hogs –Swift – Cargill what will new agreements look like when or if we get short

# Short term outlook

- Breakeven on best systems are now \$65-\$67 carcass
- Now corn concern – molds affect performance more in ECB
- Producers mindset hope others go broke before me
- The Swine industry is specialized and very hard for businesses to shut down

# Issues to discuss

- Liquidation values – change daily – tough decisions and how long do you keep funding losses
- Feed consultant on retainer for wind down scenarios
- Brand issues
- Contract barn owners owning pigs
- Still not many empty barns – nursery first
- Appraised values on facilities

# Credit Availability

- Very difficult to switch Lenders
- Why build versus acquisition
- Lenders are bailing on the industry
- Borrowing Base values going forward
- More dollars on hogs that are hedged?
- Unhedged or locked Sows Max \$100 previous \$150
- Grow – Fin - \$40 Previous \$55
- 2500 sows operating
- Max \$1.25MM before \$1.75MM = \$500K more Capital in – plus personal signatures less patience
- Swine producers controlling more land –corn in the Midwest to control costs ?

# Corn Costs Per Acre

<b>Expense Estimate/Acre</b>	<b>\$</b>	<b>94</b>	<b>\$</b>	<b>94</b>
Seed	\$	94	\$	94
Fertilizer	\$	130	\$	50
Herbicide	\$	26	\$	26
Farm Insurance	\$	4	\$	4
Crop Insurance	\$	27	\$	27
Fuel/Oil	\$	24	\$	24
Repairs	\$	28	\$	28
Crop Drying	\$	16	\$	16
Machine Lease/Hire	\$	18	\$	18
Custom/Hired Labor	\$	12	\$	12
Crop Marketing	\$	1	\$	1
Misc Crop Expense	\$	18	\$	18
Operating Interest	\$	17	\$	17
Term Interest	\$	9	\$	9
Machinery/Bldg Depreciation	\$	32	\$	32
Utilities	\$	5	\$	5
<b>Total Non-Land Expense</b>	<b>\$</b>	<b>461</b>	<b>\$</b>	<b>381</b>
Plus Land Costs/Rent	\$	225	\$	225
	\$	-	\$	-
<b>Total Land Costs/Rent/Draw</b>	<b>\$</b>	<b>225</b>	<b>\$</b>	<b>225</b>
<b>Total Expense inc. Land and Draw</b>	<b>\$</b>	<b>686</b>	<b>\$</b>	<b>606</b>
<b>Break-Even/Bushel</b>	<b>\$</b>	<b>-</b>	<b>\$</b>	<b>-</b>
	<b>\$</b>	<b>3.71</b>	<b>\$</b>	<b>3.28</b>

# Lesson Learned

- You can never have enough working capital
- Leverage will be dirty word for a period of time
- You will need to manage margin risk from now on & it will be as important as production risk
- Volatility looks like it will be the norm.
- You will need to be even better and managing your business to survive – production – costs – margin – the people that are left are good and getting better everyday

# Summary

- It might take another 12-24 months for this to be corrected
- Breakeven is \$135 a head we need \$70 hogs to be profitable what does supply/demand have to be? We are writing history
- Producers that can manage risk will grow – Lenders will allow them to manage non performing assets
- Producer – Packer more aligned model in the future
- Capital will be very difficult to get until the industry makes money for a period of time
- What will we all do when it gets better- will we go back to normal or will we learn from the past ?

# The Future



# Questions?